

Hornsby Shire Council Additional Special Variation

20 June 2022

Our decision

Hornsby Shire Council applied for a permanent Additional Special Variation (ASV) for a percentage increase in its general income of 2.28% in 2022-23. The rate peg for Hornsby Shire Council in 2022-23 was set at 0.7%. The council budgeted for a 2022-23 increase of 2.28%.

We have assessed this application against the three criteria set by the Office of Local Government (OLG). We found that Hornsby Shire Council's ASV application fully met all assessment criteria.



We have approved Hornsby Shire Council's application for a permanent 2.28% Additional Special Variation in 2022-23 (including the rate peg). Our decision means the council can increase its general income by 2.28% in 2022-23 and permanently keep this additional income in its rate base.

Table 1 Approved ASV – Hornsby Shire Council

| | 2022-23 |
|---|---------|
| Increase above the rate peg – permanent | 1.58% |
| Rate peg | 0.70% |
| Total increase | 2.28% |

Our decision means the council can increase income by 1.58% above the rate peg. We estimate this to be around \$1.17 million in additional income in 2022-23 which it can keep in its rate base going forward. This allows the council an extra \$6.1 million over the next 5 years. The impact on rates from this ASV may be different for individual ratepayers and across different ratepayer categories. The ASV represents an allowed increase in general permissible income, the council decides how it collects that income from ratepayers.

The ASV process

On 6 April 2022 the OLG announced guidelines for the Additional Special Variations (ASV) process for 2022-23 under [circular 22-07](#) (ASV guidelines). IPART has assessed applications from NSW councils for an ASV against the ASV guidelines.

The council planned for a 2.28% increase in income

Assessment criterion 1: *The application amount is not higher than the lesser of 2.5% or the council's assumed 2022-23 rate peg (including population factor) in its 2021-22 Integrated Planning and Reporting (IP&R) documentation.*

Hornsby Shire Council's 2019-20 Long Term Financial Plan (LTFP) as part of its IP&R documentation budgeted a 2022-23 rate peg of 2.28% which matches Hornsby Shire Council's ASV application for 2.28% in 2022-23. Hornsby Shire Council's most recent set of IP&R documents were adopted in 2019-20. As 2021-22 IP&R documents are not available, we have used the council's preceding documentation to assess this criterion.



The increase the council applied for matches the increase in income it budgeted in its planning documents.

Council supports the proposed increase in income

Assessment criterion 2: *The council must have made a resolution which clearly states:*

- *that the council has resolved to apply for the special variation under section 508(2) of the Local Government Act 1993 (the Act)*
- *whether the resolution is for a temporary or permanent special variation under section 508(2) of the Act*
- *the additional income that council will receive if the special variation is approved, and*
- *why the special variation is required*
- *that the council has considered the impact on ratepayers and the community in 2022-23 and, if permanent, in future years if the special variation is approved and considers that it is reasonable.*

Hornsby Shire Council resolved on 13 April 2022 to apply for a permanent special variation under section 508(2) of the Act. The council estimated it would receive around \$1.10 million of additional income in 2022-23.^a The council stated that the special variation is required to ensure that Hornsby Shire Council's provision of services and infrastructure is financially sustainable. The council stated that it considered the impact on ratepayers to be reasonable.



The council resolved to apply to increase its income by 1.58% above the rate peg or by \$1.1 million in 2022-23. It explained the reasons why the ASV is required, and the council considers the impact on ratepayers to be reasonable.

^a The council has estimated the amount of additional income it can collect, and this estimate may be different to the actual amount collected.

The council demonstrated financial need

Assessment criterion 3: *The council's 2021-22 IP&R documentation forecast an average Operating Performance Ratio (OPR) of 2.0% or lower over 2022-23 to 2026-27 or it has provided other evidence of need. For example, but not limited to that the council needs to maintain a higher OPR so it can meet its capital funding requirements.*

The OLG describes the OPR as measuring how well local councils contain expenses within revenue.^b The OPR represents what portion of a council's revenue is remaining after expenses. A positive OPR represents a surplus in income and a negative OPR represents a shortfall in income.

Hornsby Shire Council's 2019-20 LTFP forecast an average OPR of -0.4% over 2022-23 to 2026-27. An average OPR at or below 2.0% over the next 5 years demonstrates financial need. Hornsby Shire Council's most recent set of IP&R documents were adopted in 2019-20. As 2021-22 IP&R documents are not available, we have used the council's preceding documentation to assess this criterion. We note that in some years of the forecast period the council's OPR will be at or above 2.0%. The ASV guidelines identify the average OPR over the next 5 years as the threshold we are to assess against. On average the council's OPR is -0.4%.

Table 2 Hornsby Shire Council's OPR – 2022-23 to 2026-27

| | 2022-23 | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 5-year average |
|-----|---------|---------|---------|---------|---------|----------------|
| OPR | 0.6% | 2.0% | -0.8% | -1.5% | -2.1% | -0.4% |



The council's application shows it has a forecast average OPR of below 2.0%. This demonstrates a financial need for the additional income.

Summary of submissions

Hornsby Shire Council's ASV application did not receive any submissions.

^b NSW Auditor-General, *Report to Parliament | Report on Local Government 2018 | Appendix 9 – OLG's performance indicators from the audited financial statement – Descriptions*, February 2019, p 78.